



House of Representatives

General Assembly

File No. 231

January Session, 2013

House Bill No. 6550

House of Representatives, March 27, 2013

The Committee on Insurance and Real Estate reported through REP. MEGNA of the 97th Dist., Chairperson of the Committee on the part of the House, that the bill ought to pass.

AN ACT CONCERNING LOSS RATIO GUARANTEES FOR INDIVIDUAL HEALTH INSURANCE POLICIES.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. Section 38a-481 of the general statutes is repealed and the
2 following is substituted in lieu thereof (*Effective from passage*):

3 (a) No individual health insurance policy shall be delivered or
4 issued for delivery to any person in this state, nor shall any
5 application, rider or endorsement be used in connection with such
6 policy, until a copy of the form thereof and of the classification of risks
7 and the premium rates have been filed with the commissioner. Rate
8 filings shall include an actuarial memorandum that includes, but is not
9 limited to, pricing assumptions and claims experience, premium rates
10 and loss ratios from the inception of the policy. The commissioner shall
11 adopt regulations, in accordance with chapter 54, to establish a
12 procedure for reviewing such policies. The commissioner shall
13 disapprove the use of such form at any time if it does not comply with
14 the requirements of law, or if it contains a provision or provisions

15 which are unfair or deceptive or which encourage misrepresentation of
16 the policy. The commissioner shall notify, in writing, the insurer which
17 has filed any such form of the commissioner's disapproval, specifying
18 the reasons for disapproval, and ordering that no such insurer shall
19 deliver or issue for delivery to any person in this state a policy on or
20 containing such form. The provisions of section 38a-19 shall apply to
21 such orders.

22 (b) No rate filed under the provisions of subsection (a) of this
23 section shall be effective until [the expiration of thirty days after] it has
24 been filed [or unless sooner] and approved by the commissioner in
25 accordance with regulations adopted pursuant to this subsection. The
26 commissioner shall adopt regulations, in accordance with chapter 54,
27 to prescribe standards to ensure that such rates shall not be excessive,
28 inadequate or unfairly discriminatory. The commissioner may
29 disapprove such rate within thirty days after it has been filed if it fails
30 to comply with such standards, except that no rate filed under the
31 provisions of subsection (a) of this section for any Medicare
32 supplement policy shall be effective unless approved in accordance
33 with section 38a-474.

34 (c) No insurance company, fraternal benefit society, hospital service
35 corporation, medical service corporation, health care center or other
36 entity which delivers or issues for delivery in this state any Medicare
37 supplement policies or certificates shall incorporate in its rates or
38 determinations to grant coverage for Medicare supplement insurance
39 policies or certificates any factors or values based on the age, gender,
40 previous claims history or the medical condition of any person covered
41 by such policy or certificate.

42 [(d) Rates on a particular policy form shall not be deemed excessive
43 if the insurer has filed a loss ratio guarantee with the Insurance
44 Commissioner which meets the requirements of subsection (e) of this
45 section provided (1) the form of such loss ratio guarantee has been
46 explicitly approved by the Insurance Commissioner, and (2) the
47 current expected lifetime loss ratio is not more than five per cent less

48 than the filed lifetime loss ratio as certified by an actuary. The insurer
49 shall withdraw the policy form if the commissioner determines that
50 the lifetime loss ratio will not be met. Rates also will not be deemed
51 excessive if the insurer complies with the terms of the loss ratio
52 guarantee. The Insurance Commissioner may adopt regulations, in
53 accordance with chapter 54, to assure that the use of a loss ratio
54 guarantee does not constitute an unfair practice.

55 (e) Premium rates shall be deemed approved upon filing with the
56 Insurance Commissioner if the filing is accompanied by a loss ratio
57 guarantee. The loss ratio guarantee shall be in writing, signed by an
58 officer of the insurer, and shall contain as a minimum the following:

59 (1) A recitation of the anticipated lifetime and durational target loss
60 ratios contained in the original actuarial memorandum filed with the
61 policy form when it was originally approved;

62 (2) A guarantee that the actual Connecticut loss ratios for the
63 experience period in which the new rates take effect and for each
64 experience period thereafter until any new rates are filed will meet or
65 exceed the loss ratios referred to in subdivision (1) of this subsection. If
66 the annual earned premium volume in Connecticut under the
67 particular policy form is less than one million dollars and therefore not
68 actuarially credible, the loss ratio guarantee will be based on the actual
69 nation-wide loss ratio for the policy form. If the aggregate earned
70 premium for all states is less than one million dollars, the experience
71 period will be extended until the end of the calendar year in which one
72 million dollars of earned premium is attained;

73 (3) A guarantee that the actual Connecticut or nation-wide loss ratio
74 results, as the case may be, for the experience period at issue will be
75 independently audited by a certified public accountant or a member of
76 the American Academy of Actuaries at the insurer's expense. The audit
77 shall be done in the second quarter of the year following the end of the
78 experience period and the audited results must be reported to the
79 Insurance Commissioner not later than June thirtieth following the end
80 of the experience period;

81 (4) A guarantee that affected Connecticut policyholders will be
82 issued a proportional refund, which will be based on the premiums
83 earned, of the amount necessary to bring the actual loss ratio up to the
84 anticipated loss ratio referred to in subdivision (1) of this subsection. If
85 nation-wide loss ratios are used, the total amount refunded in
86 Connecticut shall equal the dollar amount necessary to achieve the loss
87 ratio standards multiplied by the total premium earned from all
88 Connecticut policyholders who will receive refunds and divided by
89 the total premium earned in all states on the policy form. The refund
90 shall be made to all Connecticut policyholders who are insured under
91 the applicable policy form as of the last day of the experience period
92 and whose refund would equal two dollars or more. The refund shall
93 include interest, at six per cent, from the end of the experience period
94 until the date of payment. Payment shall be made during the third
95 quarter of the year following the experience period for which a refund
96 is determined to be due;

97 (5) A guarantee that refunds less than two dollars will be
98 aggregated by the insurer. The insurer shall deposit such amount in a
99 separate interest-bearing account in which all such amounts shall be
100 deposited. At the end of each calendar year each such insurer shall
101 donate such amount to The University of Connecticut Health Center;

102 (6) A guarantee that the insurer, if directed by the Insurance
103 Commissioner, shall withdraw the policy form and cease the issuance
104 of new policies under the form in this state if the applicable loss ratio
105 exceeds the durational target loss ratio for the experience period by
106 more than twenty per cent, provided the calculations are based on at
107 least two thousand policyholder-years of experience either in
108 Connecticut or nation-wide.]

109 [(f)] (d) For the purposes of this section:

110 (1) "Loss ratio" means the ratio of incurred claims to earned
111 premiums by the number of years of policy duration for all combined
112 durations; and

113 (2) "Experience period" means the calendar year for which a loss
114 ratio guarantee is calculated.

115 [(g)] (e) Nothing in this chapter shall preclude the issuance of an
116 individual health insurance policy [which] that includes an optional
117 life insurance rider, provided the optional life insurance rider [must]
118 shall be filed with and approved by the Insurance Commissioner
119 pursuant to section 38a-430. Any company offering such policies for
120 sale in this state shall be licensed to sell life insurance in this state
121 pursuant to the provisions of section 38a-41.

122 [(h)] (f) No insurance company, fraternal benefit society, hospital
123 service corporation, medical service corporation, health care center or
124 other entity that delivers, issues for delivery, amends, renews or
125 continues an individual health insurance policy in this state shall: (1)
126 Move an insured individual from a standard underwriting
127 classification to a substandard underwriting classification after the
128 policy is issued; (2) increase premium rates due to the claim experience
129 or health status of an individual who is insured under the policy,
130 except that the entity may increase premium rates for all individuals in
131 an underwriting classification due to the claim experience or health
132 status of the underwriting classification as a whole; or (3) use an
133 individual's history of taking a prescription drug for anxiety for six
134 months or less as a factor in its underwriting unless such history arises
135 directly from a medical diagnosis of an underlying condition.

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| This act shall take effect as follows and shall amend the following sections: | | |
| Section 1 | from passage | 38a-481 |

INS *Joint Favorable*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact: None

Municipal Impact: None

Explanation

The bill eliminates two exceptions to the Insurance Commissioners authority to approve individual health insurance rates prior to use in the state. Although this may result in a small increase in the number of rates that the Insurance Department must approve, it is not anticipated to result in any increased costs.

The Out Years

State Impact: None

Municipal Impact: None

OLR Bill Analysis**HB 6550*****AN ACT CONCERNING LOSS RATIO GUARANTEES FOR INDIVIDUAL HEALTH INSURANCE POLICIES.*****SUMMARY:**

This bill requires insurers to obtain approval for all individual health insurance rates from the insurance commissioner before their use in Connecticut.

It eliminates the two exceptions in current law to the insurance commissioner's authority to approve rates. The first exception allows rates (except rates for Medicare Supplement plans) to be deemed approved if the commissioner does not act on a filing within 30 days. The second exemption allows an insurer to use rates when they are filed if the insurer also files a loss ratio guarantee. Among other things, the guarantee is a promise that the actual loss ratio for the policy will meet or exceed the guaranteed loss ratio. A "loss ratio" is a ratio of incurred claims to earned premiums. If the insurer does not meet the guarantee, it must pay insured persons a premium rebate.

The bill also requires rate filings for individual health insurance policies to include an actuarial memorandum that contains pricing assumptions and claims experience, premium rates, and loss ratios from the policy inception.

EFFECTIVE DATE: Upon passage

COMMITTEE ACTION

Insurance and Real Estate Committee

Joint Favorable

Yea 18 Nay 0 (03/14/2013)